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SUBJECT: MEDIA REACTION: PRESIDENT CHEN SHUI-BIAN'S FUTURE AND
CROSS-STRAIT RELATIONS

Summary: Taiwan's major Chinese-language dailies November 25-27 focused on [Taiwan's] Advanced Semiconductor Engineering's announcement that it will sell 100 percent of the company's stock to the U.S.-based Carlyle Group for NT\$39 [US\$1.20] per common share, or a total of NT\$179 billion [US\$5.5 billion], to get around the government's restriction limiting Taiwan companies' investments in China to 40 percent of their net worth. The other major focus of all Taiwan dailies is the allegedly luxurious life of President Chen Shui-bian's son, Chen Chih-chung, and daughter-in-law, Huang Rui-jing, in New York; and whether they will return to Taiwan to give birth to their baby to prevent President Chen from "being the grandfather of an American."

In terms of editorials and commentaries, pro-status quo "China Times" said in its editorial that the year-end mayoral elections in Taipei and Kaohsiung will determine the future of President Chen Shui-bian and KMT Chairman Ma Ying-jeou. Another "China Times" editorial said that the Purchase of [Taiwan's] Advanced Semiconductor Engineering by [the U.S.-based Carlyle Group] is an ominous sign for Taiwan's economy, and urged the government to adjust its cross-strait economic policy. The English-language, pro-independence "Taipei Times" editorialized that the government should be wary of companies that may attempt to delist their stock in Taiwan's stock market in order to circumvent China-bound investment regulations. End summary.

A) "Citizens in the Taipei City and Kaohsiung City are Determining the Nation's Future"

The pro-status quo "China Times" [circulation: 400,000] editorialized (11/26):

"... The political climate in general, haunted by the shadow of scandals involving high-ranking officials, in spite of the Presidential Office Allowance for State Affairs that involves President Chen Shui-bian and the First Family, or the special allowance case that involves KMT Chairman Ma Ying-jeou, has made the [mayoral] elections a decisive battle between 'rectitude and corruption.' Regardless of whether it was [the] Blue [camp] or Green [camp], they all praised 'rectitude.' This means that political practitioners have become more aware of the importance of not getting tainted in their careers. It is certainly advantageous for the political culture as a whole.

"However, it is also because of the shadow of scandals that involve high-ranking officials that the elections have tacitly become a confidence vote of Chen Shui-bian vs. Ma Ying-jeou. ...

"... In other words, the moment that constituencies cast their votes on December 9 is a critical one that determines the DPP's next move. Obviously, not only the party chairman might face having to consider resigning, but the Premier and Chen Shui-bian as well. The

maneuvers of the four DPP bigwigs, their relations with President Chen, and even the DPP's choice to completely distance itself from corruption might face a showdown. ..."

B) "Taiwan's Ominous Economy Forecasted by the Purchase of Advanced Semiconductor Engineering"

The pro-status quo "China Times" [circulation: 400,000] editorialized (11/27):

"... From the development of industries across the Strait, industries [in Taiwan] have reached a critical decision point. More than ten years ago, when the policy of 'no haste, be steady' started to restrict investments in China, China's development in industry was still falling behind relative [to Taiwan's]. Other than labor-intensive industries, China has been developing capital-intensive traditional industries, such as petrochemicals and automobiles. Hence, Taiwan's high-tech industry, which is vital overall to Taiwan's industries, did not face any imminent crisis. But China has made speedy development in its high-tech industry through policy guidance, the influx of global capital and technology, and the establishment of factories in China by multinational companies. ... Taiwan's industries, however, were chained on the small island by the government and did not have any space to maneuver. ...

"Whether the foreign company [i.e. the U.S.-based Carlyle Group] will complete the purchase of the Advanced Semiconductor Engineering remains to be seen, the matter is a serious warning to the government's cross-Strait relations and Taiwan's capital market. If the government is not able to look squarely into its implications and make major adjustments to its policy, this might be a watershed mark in a downhill trend for Taiwan's industrial and capital markets."

C) "Companies, like life, will find a way"
CROSS-STRAIT RELATIONS

The pro-ndependence, English-language, "Taipei Times" [circulation: 30,000] editorialized (11/27):

"The film [Jurassic Park] reminded many in the industry just what happened last Friday when ASE, the world's largest semiconductor packaging and testing company, confirmed it had received an indication of interest from a private equity consortium led by the Carlyle Group, paving the way for the Taiwanese firm to openly invest in China.

"The reason why the analogy is a pertinent one is that if ASE agrees to the all-cash buyout by the Carlyle-led consortium -- and provided the government does not oppose it -- ASE will be transformed into a foreign company. At that point, Carlyle will likely apply to delist ASE from the Taiwan Stock Exchange, as long as it secures 75 percent of the outstanding common shares of the local firm. This will in turn allow ASE to circumvent the government's China-bound investment restrictions, especially the present 40 percent investment ceiling of a listed company's net value. ...

"In the past, buyouts of local firms were usually an isolated phenomenon. Nowadays, the appetite of foreign investors is higher and businesses are keener on delisting. Several investment banks, including Goldman Sachs, have predicted more foreign investors will follow suit in shopping for other potential acquisition targets in Taiwan, especially those which are undervalued, such as United Microelectronics Corp, MediaTek, Quanta Computer and Lite-On Technology Corp.

"Coupled with recent cases of companies that have announced capital reduction plans, the government should be wary of companies that may attempt to delist their stock in order to circumvent China-bound investment regulations. Life will find a way and so do companies. The publicized cases are just the tip of the iceberg."

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